



Covid-19 pandemic requires firms to re-imagine their tech

Even banks with resilient technology must think differently about how to make their systems fit for the years after the coronavirus panic fades

Banks came into the Covid-19

global recession with far stronger capital and liquidity buffers than on the eve of the financial crisis 12 years ago, but profitability has been poor even during the recent benign years of low defaults and buoyant asset prices.

Over the last five years, average returns on equity for the global corporate and investment banks have hovered around 9% to 10%, according to the latest blue paper report published by Oliver Wyman and Morgan Stanley in April.

In their base case assumption for the pandemic taking six to 12 months to control, the report's authors see returns on equity falling to between 0% and 1% for 2020 thanks to the large credit losses that will come with the global recession.

Returns will be negative, possibly markedly so, in a deeper global recession if the pandemic is still not under control by next summer, they say. Hence all the focus on capital adequacy and banks' capacity to cope not just with low earnings but with substantial losses.

Banks have been declaring that they will not cut jobs during the lockdowns. For now, they cannot do much to cut costs.

The authors note a structural change in the industry of higher fixed expenses than in the bonus-crazy days before 2008. That reflects the increased importance of technology, the growth in regulatory and control functions, and the shift in performance compensation to fixed rather than variable structures.

Only 20% to 30% of the cost base is flexible today, and only between 5% and 10% can realistically be exited in the near term, compared with more than 20% in the global financial crisis, the report says.

Tech stress

Today, banks' technology systems are being stressed by unusually high processing volumes – during the sell-everything panic in secondary markets in March, the bounce back in April and record weeks for bond new issues – while many people work from home.

What do firms need to do in order to improve their chances over the next three to five years? After all, no one should let a good crisis go to waste.

Euromoney speaks to Samir Pandiri, a former banker at BNY Mellon and JPMorgan and now president of Broadridge International, provider of advanced technology to banks and asset managers relating to artificial intelligence, blockchain, the cloud and digitalization projects.

"We have had a ton of calls, and we are finding four themes," Pandiri tells us. "First, every client is or should now be looking at their full technology stack. 'How resilient is it? How much do I own myself and how dependent am I on third parties? What is their resilience? Can I cope with volume spikes that are two, three, 10 times business as usual?'"

"Second, how do clients digitize what they already have. We have a lot of clients in Japan for example with

limited capacity to work from home that are highly dependent on manual processes.

"This crisis will see a greater focus on digitization and on migration to the cloud among banks and asset managers that today still need to send people into their offices to operate systems installed on local servers.

"Third, what processes and costs can clients mutualize, passing them

to third-party specialists to perform at scale and with perhaps greater resilience."

"Finally, clients are asking themselves whether they have timely access to the right data to make decisions."

The slow pace at which the industry has embraced shared services intrigues Euromoney. Pandiri suggests it may be a generational issue for senior executives who are in their 50s and 60s.

"Our generation is used to solving problems on our own," he says. "Our kids solve problems

in groups, through the power of the whole peer eco-system."

He draws an example: "Think of regulatory reporting for asset managers. It's an essential function. If you don't do it, the regulators will close you down. But it's not something you distinguish yourself on. It's not how you generate alpha. So, this is a perfect function to mutualize.

"If you build and maintain your own in-house systems, each time regulation changes you have to recode them, then test them before you can use them. A specialist third party operating at scale can deal with all that, probably build in greater resiliency and you only pay for the capacity you use when you use it."

Testing time

Banks that come out of this intact may take a more pragmatic view about shrinking what they do in-house to a few core specializations while outsourcing more middle and back office to shared providers.

But right now, Euromoney hears plenty of anecdotal evidence that for all the brave talk of technology infrastructure holding up well, that is not the case at every firm.

Pandiri says: "The big global banks and asset managers that have come through many crises before are going through their business continuity plans, focusing on critical technology and critical vendors. And now, having transitioned to working from home, they are starting to look ahead and re-imagining how their businesses might operate over the next decade.

"But we also have a small group of clients that are still all hands on deck right now. They are just trying to get through from day to day, focusing just on what they need today and tomorrow. These clients will still have to report to regulators.

"My advice to them is at least to show they can measure any problems and then be able to report what short-term remediation plans they have put in place and by what longer-term metrics they might show progress in getting on top of them."

He says: "It's like the virus itself. Data is absolutely essential. You have to test, test, test."



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Samir Pandiri, Broadridge International